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MATTAGAMI LAKE MINES LIMITED

(NO PERSONAL LIABILITY)

ANNUAL REPORT

1968

ANNUAL MEETING — Mattagami Lake Mines Limited. Le Chateau Champlain, Montreal, Quebec, on Tuesday the 15th day of April, 1969, at 11:30 o'clock in the forenoon (Montreal time).

MATTAGAMI LAKE MINES LIMITED *(Incorporated under the laws of Quebec)*
(NO PERSONAL LIABILITY)

HEAD OFFICE: MATAGAMI, QUEBEC

EXECUTIVE OFFICE	44 King St. West, Toronto, Ontario
MINE OFFICE	Matagami, Quebec
MINE MANAGER	M. W. AIRTH
AUDITORS	PEAT, MARWICK, MITCHELL & CO. Toronto, Ontario
REGISTRAR AND TRANSFER AGENT	CANADA PERMANENT TRUST COMPANY Vancouver, Calgary, Saskatoon, Winnipeg, Toronto, Montreal, St. John, N.B., Halifax, Charlottetown, St. John's, Nfld.
SOLICITORS	MILLER, THOMSON, HICKS, SEDGEWICK, LEWIS & HEALY
BANKERS	CANADIAN IMPERIAL BANK OF COMMERCE THE BANK OF NOVA SCOTIA

DIRECTORS	J. M. R. CORBET	Toronto
	R. G. DUTHIE	Vancouver
	R. LETOURNEAU	Quebec
	T. H. McCLELLAND	Vancouver
	R. V. PORRITT	Toronto
	J. B. REDPATH	Toronto
	W. S. ROW	Toronto
	W. DENT SMITH	Toronto
	K. J. SPRINGER	Toronto

OFFICERS	W. S. ROW	President
	T. H. McCLELLAND	Vice-President
	R. C. ASHENHURST	Secretary and Treasurer
	B. C. BONE	Assistant Treasurer
	B. H. GROSE	Assistant Secretary

REPORT OF THE DIRECTORS

To the Shareholders:

Your Directors submit herewith the Tenth Annual Report of your Company for the year ended December 31, 1968 which includes the Financial Statements, the Auditors' Report thereon and the Report of the Manager.

Net income was $7,258,783 ($1.10 per share) down from $10,925,872 ($1.65 per share) in 1967. Gross production value was down some $3.2 million due to a two-week strike at the mine in mid-December, a seven-week strike at the zinc plant from April 13 to June 1, and somewhat lower metal prices. The correspondingly lower net profit was further reduced because Federal Income Tax was applicable for the first time for which $2,250,000 (34¢ per share) was provided. The Company's share of net losses of partially-owned subsidiaries amounted to $658,000.

Interim dividends of 30¢ per share were paid quarterly throughout the year and an extra 30¢ was paid in December, for a total of $9,900,480 or $1.50 per share.

A further dividend of 30¢ per share has been declared payable on the 21st of March, 1969.

The Company is conducting a programme of outside exploration in keeping with its long-range objective to develop ore reserves additional to those of the mine at Matagami.

AT THE MINE

Mining operations were normal during the year except for the two-week strike in mid-December which resulted in a loss of potential production of approximately 50,000 tons. The average daily tonnage was consequently 3,726 as compared to 3,874 in 1967.

For the first time the ore reserve includes tonnage below the 750-foot level, of about 1½ million tons of relatively low grade ore. At the year end the total ore reserve was 18,388,870 tons.

ZINC REDUCTION PLANT

The Canadian Electrolytic Zinc (C.E.Z.) plant produced 111,460 tons of slab zinc (305 tons per day), 112,712 tons of 100% sulphuric acid and 508,260 pounds of cadmium.

The expansion of C.E.Z. plant capacity from 200 to 400 tons of metal per day was possible only through the construction of a roaster plant with a capacity of 400 tons per day of zinc concentrate and a sulphuric acid plant capable of converting all of the sulphur dioxide into sulphuric acid. St. Lawrence Fertilizers (S.L.F.), in which C.E.Z. took a 25% equity, built a phosphate fertilizer plant and contracted to purchase the sulphuric acid. Subsequently, pricing of fertilizer became chaotic and S.L.F. was in serious financial trouble. In the meantime, the market for acid also weakened. As acid is an essential by-product of the process, C.E.Z. found it necessary to acquire 100% of S.L.F., which it did by issuing preferred shares of wholly-owned S.L.F. Holdings Limited for the common shares of S.L.F.

However, the ownership of S.L.F. has required the owners of C.E.Z. to make interest-free loans and to absorb any losses.

The General Smelting Company of Canada (wholly-owned by Canadian Electrolytic Zinc) experienced a 95-day strike from September 6 to December 8. As a result, this company's operations produced a net loss of $85,328, as compared to a net profit of $109,380 in 1967.

METAL MARKETS

Zinc mine production in 1968 increased for the eighth consecutive year to 4,400,000 tons, up 4%.

With new smelter capacity in Europe, Japan and Australia, zinc metal output in the Free World reached 4,000,000 tons. However, stocks were reduced over the year as zinc consumption resumed its growth with an increase of 10% to 4,100,000 tons.

The U.S. and Canadian prices increased in January, 1969 by ½¢ to 14¢ U.S. and 14¢ C.F. per pound, the first change since June, 1967. The overseas price remains at the equivalent of 12¼¢ U.S. per pound in effect since June, 1967.

The eight-month U.S. copper industry strike ended in March and the increased availability of mine production encouraged fabricators to reduce inventories and resulted in lower prices overseas. By September, however, the depleted supply pipelines and fabricator inventories could not support the strengthening economic situation in Europe, Japan and North America, and pressure on supplies firmed prices. The Canadian price which was reduced from 51¢ per pound to 45¢ in July, increased to 48.5¢ in January, 1969.

The current spread between North American prices and the high overseas levels is expected to narrow as the weight of increasing mine production is felt later this year.

The Directors herewith acknowledge to Mr. M. W. Airth, Manager of Mattagami, to Mr. K. H. Heino, Manager of Canadian Electrolytic Zinc and to their staff members, their appreciation for the way in which they discharged their responsibilities during a year in which times were unusually difficult.

On behalf of the Board,

W. S. Row

President.

Toronto, Ontario,
February 19, 1969.

REPORT OF THE MANAGER TO
The President and Directors
MATTAGAMI LAKE MINES LIMITED

Operations at the property during the year ended December 31, 1968 are reviewed in the following report.

The mill and plant operated at capacity except for a period of two weeks in December when the plant was closed down because of a strike. This reduced the average daily rate for the full year to 3,726 tons from 3,874 tons daily in 1967. The rate for the first eleven months of 1968 was 3,911 tons daily.

PRODUCTION:

	1968	1967
Ore Milled dry tons	1,363,705	1,414,136
Daily rate	3,726	3,874
Calculated Grade		
Zinc %	9.8	10.0
Copper %	0.59	0.61
Gold oz/ton	0.011	0.011
Silver oz/ton	0.80	0.85
Zinc Concentrate Produced		
Short dry tons	230,830	248,352
Grade Zinc %	52.7	51.7
Copper Concentrate Produced		
Short dry tons	29,832	30,738
Grade Copper %	19.9	20.57
Gold oz/ton	0.143	0.120
Silver oz/ton	7.91	7.47

The zinc concentrate was shippd to the Canadian Electrolytic Zinc plant at Valleyfield, to Quebec City for overseas export and to the United States.

The copper concentrate was shipped to the Noranda smelter of Noranda Mines Limited.

MILLING:

The mill operated 94.09% of the possible time and metal recoveries were as follows:

	1968	1967
Zinc %	91.1	90.9
Copper %	72.9	73.0

The zinc recovery was essentially the same even with an increase in zinc concentrate grade from 51.7% to 52.9%. The continuous on-stream X-Ray analysis equipment was responsible for this improvement.

MINING:

Mine development was directed toward stope and pillar preparation in both Nos. 1 and 2 orebodies. The main primary development on the 960 level was completed and on the 750 level a footwall drive was started to test in detail a zone of low-grade nickel copper mineralization.

SUMMARY OF DEVELOPMENT FOR 1968

	Level Development		Stope Development		Diamond Drilling	
Level	Drifts & Raises Feet	Slash Cu Feet	Advance Feet	Slash Cu Feet	No. of Holes	Total Feet
150	—	—	8	—	—	—
350	13	110	6,789	40,080	11	1,313
550	—	—	4,069	34,235	6	2,550
750	718	11,090	9,445	78,635	38	11,485
960	1,379	11,825	500	3,355	51	11,906
TOTAL	2,110	23,025	20,821	156,305	106	27,254

Extension rod drilling amounted to 470,419 feet of two-inch diameter hole and at year end there was a drilled-off tonnage in the stopes and pillars of 1,412,000 tons, a gain of 152,600 tons.

ORE RESERVES:

After taking into account considerable additional ore outlined by diamond drilling, and lower grade material now economic due to favourable metal prices and costs, the proven ore above the 750 level now stands as follows for No. 1 orebody:

Tons	Zinc %	Copper %	Gold Oz/Ton	Silver Oz/Ton
15,225,452	10.4	0.70	0.014	1.15

In the No. 2 Orebody the ore reserves remain essentially the same, as follows:

Tons	Zinc %	Copper %	Gold Oz/Ton	Silver Oz/Ton
1,677,143	10.2	0.76	0.013	0.99

In No. 1 orebody between the 750 level and the 960 level there is a substantial amount of medium grade material which is being brought into reserves this year since mining of this ore is now under active planning. This material can be worked into the overall mining sequence without difficulty. These reserves are as follows:

Tons	Zinc %	Copper %	Gold Oz/Ton	Silver Oz/Ton
1,486,275	5.9	0.63	0.005	0.50

Total ore reserves in both Nos. 1 and 2 orebodies, and without allowance for dilution, are as follows:

Tons	Zinc %	Copper %	Gold Oz/Ton	Silver Oz/Ton
18,388,870	10.0	0.70	0.012	1.08

This total represents a net gain of 420,557 tons during the year.

FILLING:

During the year 689,229 tons of classified tailings fill and 185,628 tons of pit sand were placed for back-

filling completed stopes. There are now seventeen stopes filled, four filling and three being prepared. A total of 2,153,804 tons of fill have been placed.

PILLAR EXTRACTION:

During the year 51.7% of the ore mined came from pillar extraction. The first pillar to be mined against unconsolidated fill was 75% complete by the year end. The goal of 90% recovery with 10% dilution should be achieved or exceeded.

SURFACE EXCAVATION:

The removal of overburden over the southeastern end of No. 1 orebody continued and at year end 391,000 cubic yards had been removed. Over the next two or three years approximately 1.8 million cubic yards will be removed. This will uncover stoping areas containing approximately 4 million tons of ore which will be mined through to surface.

DIAMOND DRILLING:

Both surface and underground diamond drilling continued to explore the andesite-rhyolite contact down dip and within the limits of the property. Low metal values over narrow widths persisted at the contact. Similar results were obtained in a deep hole on the property of the former Watson Lake Mines Limited.

Surface and underground diamond drilling also explored further the rhyolite-peridotite contact which has indicated a low grade nickel-copper body on the northeast limb of the intrusive for a strike length of about 2,500 feet. Drilling to date shows an estimated 3 million tons of this nickel-copper material grading about 0.80% combined nickel-copper.

EXPLORATION PROGRAMME:

A programme of outside exploration was undertaken during the year. Work was done in the White River, Timmins, Nakina and Timagami areas in Ontario, and in the Mistassini and Miquelon areas in Quebec. Three properties were drilled, but nothing of economic interest has been found to date. Work is continuing in the Miquelon area.

PERSONNEL:

The average number of employees during the year was 439, a reduction of 11 from the 1967 average. Operating efficiency remains constant at 12.8 tons milled per manshift worked.

The accident record in 1968 showed a big improvement over that of 1967, and continued improvement is looked for in 1969.

The turnover in personnel continued high at about 4.8% per month, about the same as last year. At year end 79% of the employees had seniority of one year or more, a real improvement over the 1967 figure of 67%.

On December 16, 1968 a three-year collective agreement was signed with the union.

GENERAL:

The Town of Matagami continued to add to its facilities during the year.

The civic centre containing a theatre, bowling alley, library, large hall, swimming pool and restaurant was finished early in the year, and it is being well used by all the people in Matagami.

The community church and school extension were both ready to use at the year end.

The 22-bed hospital and nurses' residence are well on their way to completion and should be occupied early in the year.

A four-hole golf course was completed by September and well used during the autumn.

The employees' Recreation Association enjoyed another successful year.

Once again I wish to acknowledge with thanks the assistance and support of the President, Officers and Directors of the Company.

And in conclusion I take great pleasure in acknowledging the hard work, loyalty and cooperation of the staff and employees throughout the year.

M. W. Airth

M. W. AIRTH, P.Eng.,
Mine Manager.

Matagami, Quebec,
January 28, 1969.

BALANCE SHEET

ASSETS

	1968	1967
Current assets:		
Cash and short-term deposits	$10,659,341	7,965,311
Settlements receivable	2,867,355	2,620,326
Other accounts receivable	598,282	347,287
Concentrates and metal at reduction plants and in transit at estimated net realizable value	7,395,780	9,412,938
Prepaid expense and deposits	137,077	184,495
	21,657,835	20,530,357
Fixed assets, at cost less accumulated depreciation:		
Buildings, plant and equipment:		
Mine site	19,299,183	19,093,412
Zinc plant	20,298,973	19,590,311
	39,598,156	38,683,723
Less accumulated depreciation	17,194,948	13,276,386
	22,403,208	25,407,337
Mining property and rights	2,503,021	2,503,021
Land — zinc plant	85,640	85,640
	24,991,869	27,995,998
Investments:		
In partly owned subsidiaries (note 1):		
Shares	947,132	795,494
Advances	2,848,036	183,702
	3,795,168	979,196
In other companies, at cost less amounts written off	117,450	700,815
	3,912,618	1,680,011
Other assets:		
Preproduction and development expenses at cost less amounts written off (note 2)	2,303,150	2,985,945
5% refundable tax	616,419	1,052,144
Mine stores and supplies, at cost	713,088	725,962
	3,632,657	4,764,051
	$54,194,979	54,970,417

See accompanying notes to financial statements.

AUDITORS' REPOR

We have examined the balance sheet of Mattagami Lake Mines Limited as of December 31, 1968 and the statements of net income and retained earnings and source and application of funds for the year then ended and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, except that the provision for income taxes and Quebec mining

Toronto, Ontario,
February 13, 1969.

DECEMBER 31, 1968 with comparative figures for 1967

LIABILITIES

	1968	1967
Current liabilities:		
Accounts payable and accrued liabilities	$ 746,487	907,421
Due to subsidiary company	—	36,647
Income taxes payable (note 4)	2,461,935	408,616
	3,208,422	1,352,684
Shareholders' equity:		
Capital stock (note 3):		
Shares of a par value of $1 each. Authorized 7,000,000 shares; issued 6,600,900 shares	6,600,900	6,600,000
Premium on shares	1,509,619	1,499,998
	8,110,519	8,099,998
Retained earnings (note 4)	42,876,038	45,517,735
	50,986,557	53,617,733
	$54,194,979	54,970,417

On behalf of the Board:

W. S. ROW, Director.

J. B. REDPATH, Director.

O THE SHAREHOLDERS

duties have not been computed on the tax allocation basis as explained in note 4 and according to the best of our information and the explanations given to us and as shown by the books of the company, these financial statements are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the company at December 31, 1968 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year except as explained in notes 1 and 2.

PEAT, MARWICK, MITCHELL & CO.,
Chartered Accountants.

STATEMENT OF NET INCOME AND RETAINED EARNINGS
Year Ended December 31, 1968
with comparative figures for 1967

	1968	1967
Gross value of metals produced	$38,284,726	41,482,026
Less smelter and transportation charges	11,104,094	11,235,801
	27,180,632	30,246,225
Expenditures:		
Mine and zinc reduction plant expenses	11,356,675	11,270,289
Administration and corporate expenses	474,035	360,646
	11,830,710	11,630,935
	15,349,922	18,615,290
Depreciation and amortization:		
Buildings, plant and equipment	3,959,816	3,868,372
Preproduction and deferred development expenses (note 2)	995,315	2,600,943
	4,955,131	6,469,315
Net operating income	10,394,791	12,145,975
Other income — interest	854,704	424,385
	11,249,495	12,570,360
Other charges:		
Exploration expenses	314,772	100,885
Share of net losses less net profits of subsidiaries (note 1)	658,815	—
Write-down of investment	17,125	33,206
	990,712	134,091
	10,258,783	12,436,269
Income taxes (note 4):		
Federal	2,250,000	—
Quebec mining duties	750,000	1,510,397
	3,000,000	1,510,397
Net income for the year	7,258,783	10,925,872
Retained earnings at beginning of year	45,517,735	42,841,863
	52,776,518	53,767,735
Cash dividends	9,900,480	8,250,000
Retained earnings at end of year	$42,876,038	45,517,735

See accompanying notes to financial statements.

NOTES
TO FINANCIAL STATEMENTS
December 31, 1968

1. The assets and liabilities and income and expense of the partly owned subsidiary companies have not been consolidated since four of them are part of a joint venture with four other mining companies and the other two companies are inactive exploration companies which are not significant in the circumstances. In 1968 the company changed its procedure for recording investments in subsidiaries from one where they are recorded at cost to one where they are recorded at cost plus or minus the company's share of the undistributed earnings or losses of the subsidiaries since acquisition. If this procedure had been in effect in 1967, the company's net income for that year would have been $66,792 greater while the carrying value of the investments in subsidiaries at December 31, 1967 would have been greater by $191,032.

2. In previous years preproduction and development expenses were amortized at an annual straightline rate of 20%. This rate has been reduced so that the balance from previous years is being amortized over the three years 1968-1970. As a result, for 1968 the amortization of preproduction and development expenses is less than the corresponding amount for 1967 by approximately $1,600,000 and net income for 1968 is increased by a corresponding amount. Current deferred development expense will be amortized during those future years when the related income is recorded.

3. Under the provisions of The Stock Option Plan, options on 19,500 shares were granted during the year and options on 900 were exercised for $10,521 cash. At December 31, 1968 options on 18,600 shares were outstanding at $11.69 each and may be exercised on or before August 6, 1978.

4. The company claims capital cost allowances and depreciation for federal income tax and Quebec mining duty purposes in excess of the related amounts in the company's accounts and provides in its accounts only for taxes payable on its taxable income for the year.

   This accounting treatment differs from the tax allocation basis by which the income tax provision is based on income reported in the accounts. If the tax allocation basis had been followed in 1968, net income would have been reduced by $1,640,000 and the cumulative amount of deferred tax credits to December 31, 1968 would have been $1,640,000.

5. The aggregate direct remuneration paid to directors and senior officers during 1968 was $105,125.

STATEMENT OF SOURCE AND APPLICATION OF FUNDS
Year Ended December 31, 1968
with comparative figures for 1967

	1968	1967
Funds provided:		
From operations:		
Net profit	$ 7,258,783	10,925,872
Charges not requiring cash expenditure:		
Depreciation and amortization	4,955,131	6,469,315
Share of net losses less net profits of subsidiaries	658,815	—
Write-down of investment	17,125	33,206
	12,889,854	17,428,393
Refund (payment) of 5% refundable tax	435,725	(326,364)
Sale of capital stock	10,521	—
Decrease (increase) in mine stores and supplies	12,872	(93,741)
	459,118	(420,105)
Total funds provided	13,348,972	17,008,288
Used as follows:		
Purchase of fixed assets (net):		
Buildings, plant and equipment:		
Mine site	246,273	587,238
Zinc plant	709,412	807,235
	955,685	1,394,473
Cash dividends	9,900,480	8,250,000
Purchase of investments (net)	2,908,547	171,234
Development expenses deferred	312,520	—
Total funds used	14,077,232	9,815,707
Reduction in (addition to) working capital	$ 728,260	(7,192,581)

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